

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6615

BILL NUMBER: SB 328

NOTE PREPARED: Feb 2, 2015

BILL AMENDED:

SUBJECT: Medicare Supplement for State Employees.

FIRST AUTHOR: Sen. Leising

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: This bill requires the State Personnel Department (SPD) to make available to certain state employees a group Medicare supplement insurance policy. The bill requires the state to pay a percentage of the group Medicare supplement policy premium equal to the average percentage paid for self-insured health coverage for active employees.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Summary:* This bill could decrease net General Fund expenditures by \$110,000 in CY 2016 and by \$170,000 in CY 2017 to provide an employer contribution for Medicare Supplement Plan F policies. The maximum annual impact in General Fund expenditures during CY 2016 and CY 2017 is summarized in the following table.

Calendar Year	Estimated Expenditure Increase	Estimated Cost Savings	Net General Fund Impact
2016	(\$0.96 M)	\$1.07 M	\$110,000
2017	(\$1.33 M)	\$1.50 M	\$170,000

(Revised) However, under federal law (42 CFR 411.103), employers are prohibited from offering financial incentives not to enroll in, or to terminate enrollment in, a health plan that would be primary to Medicare. The federal penalty for violation of this prohibition is a civil penalty of \$5,000 for each violation. Based on the number of affected employees behind the estimates above, if the state were to offer state-subsidized

Medicare Plan F coverage, the state could be liable for \$885,000 and \$1,200,000 in federal civil penalties in CY 2016 and CY 2017, respectively.

Additional Information: The bill requires the state to provide Medicare Supplement Plan F policies to active state employees after they become eligible for Medicare coverage. The bill also requires the state to pay a percentage of the premium that is equal to the average state percentage paid for state employee health plan premiums.

The CY 2015 blended employer percentage contribution for all state employee health plans is approximately 88%. The following table shows estimated health plan participation rates for state employees over the age of 65 during CY 2016 and CY 2017, absent any legislative action.

Year	Active State Employees Age 65+	State Employee Health Plan Participants	Indiana State Police Health Plan Participants	Estimated Medicare Participants
CY 2016	1,082	800	37	245
CY 2017	1,451	1,086	50	329

The average monthly premium for Medicare Supplement Plan F coverage in the state was reported to be \$186 in 2010 (\$2,232 annualized). After adjusting for inflation, annual premiums in 2016 and 2017 are estimated to be \$2,578 and \$2,655, respectively. If the state were responsible for 88% of the premiums for Medicare Supplement Plan F coverage, an estimated \$2,269 for CY 2016 and \$2,337 for CY 2017 per eligible state employee could annually be expended.

Individuals who select state-subsidized Medicare Supplement Plan F coverage would also pay premiums for Medicare Plan B and Medicare Plan D coverage to maintain similar coverage as under the state plan. At a minimum, current participant annual premiums for Medicare Plan B, D, and F coverage is estimated to be \$3,860. Medicare Plan D coverage could require an additional premium payment depending on the participant's income. As proposed, the annual employee cost for Medicare coverage, at a minimum, would be \$1,572.

The bill could make Medicare coverage (including Plan F coverage) the cheapest alternative to some active state employees over the age of 65 who wish to supplement their Medicare coverage. It is assumed that based on the annual premiums for the different types of health coverage available to this population, a total of 177 and 240 state employees could take up the state-subsidized Medicare coverage during CY 2016 and CY 2017, respectively. As a result, the state could experience cost savings on the employer-provided contribution. The state-provided coverage amounts by plan are included in the following table, and this rate varies depending on the specific plan selected by the state employee.

Health Plan Type	State Provided Amount (for CY 2015)
State Employee Health Plan	\$5,184 to \$5,783
ISP Health Plan	\$6,082 to \$17,011

As a result of these employees taking up state-subsidized Medicare coverage that has a lower employer-provided rate, the state could reduce health plan costs by approximately \$1.07 M in CY 2016 and \$1.50 M in CY 2017.

An estimated total of 422 and 569 state employees over the age of 65 are estimated to receive Medicare Plan F subsidized coverage during CY 2016 and CY 2017, respectively. The estimated new costs per year are included in the following table.

Year	Current Medicare Participants	New Medicare Participants (Bill Impact)	Total Medicare Participants	Estimated State Cost for Premium Subsidy
CY 2016	245	177	422	\$0.96 M
CY 2017	329	240	569	\$1.33 M

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Kaiser Family Foundation, *Medigap Reform: Setting the Context for Understanding Recent Proposals*. January 2014; Christy Tittle, State Personnel Department; Indiana PERF Retirement Data; U.S. Bureau of Labor Statistics, *Consumer Price Index*; Keith Beasley, DOI.

Fiscal Analyst: Bill Brumbach, 232-9559; Stephanie Wells, 232-9866.